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ABSTRACT

This paper represents part of a comprehensive study of the existing New York State school support formulae. The report consists of (1) analysis of the 1969 State revenue increases -- wage increases and inflation, expansion of State and local government services, property tax relief, and increased annual revenue needs; (2) explication of factors affecting property tax rate disparities -- population migration trends, increasing length of schooling for individuals, changing composition of the work force, and differences among suburban communities; and (3) discussion of taxation alternatives -- growth in property tax base, growth in income and sales tax bases, and an integrated income property sales tax proposal. A 28-item bibliography is appended. (DE)

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BACKGROUND PAPER

ON

STATE AND LOCAL TAXATION

By

Eugene McLoone
University of Marvland

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PREFACE

Members of the New York State Educational Conference Board voted in June, 1968 to launch a comprehensive year-long study of the existing state school support formulae in New York. The Conference Board felt that such a study was essential in order to prepare for adoption of a new school support program.

Consultants retained by the Conference Board completed four staff studies and a background paper during the 1968-69 school year. The consultants appeared before the Conference Board to discuss their study findings in a two-day seminar held April 20-21, 1969 at the State University of New York at Albany.

A summary of the findings of each of the four studies is included in the overall report resulting from the study, "1969-70 Review of Public School Finance Policy in New York State."

Each of the four staff studies has been reproduced in the format in which it was presented by the study authors. The titles and authors of the four studies are:

Number	Title	Author
1.	Intergovernmental Relations in Public School Finance - 1970	Arvid J. Burke
2.	The Fiscal Structure for Education	John W. Polley
3.	Governmental Structure for Public School Finance	Robert L. Lorette Gerald Carozza Daniel Greco
4.	Development of a Measure of Educational Need and Its Use in a State School Support Formula	Walter I. Garms Mark C. Smith

"State and Local Taxation" is the title of the background study prepared for the Conference Board by Dr. Eugene P. McLoone.

The Conference Board wishes to express its appreciation to all of the study authors.

Kenneth E. Buhrmaster, Chairman
Educational Conference Board

July, 1969

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STATE AND LOCAL TAXATION

Analysis of 1969 State Revenue Increases

In 1969, state legislatures and Governors throughout the country faced a unique need for new state revenue. Tax increases were heavy in 1967 and 1968 (an off legislative year).[1] Tax revenue increases from 1967 to 1968 were the highest in history[2] and almost 40 states anticipate a surplus in 1969. Yet tax increases equal to or exceeding those of 1967 were proposed this year in many states - - even in some of the states enacting a new broad-base sales or income tax in 1967.[3]

The need for additional new state revenue in 1969 arose for four reasons: first, inflation and wageincreases required to keep public employment competitive with private industry; second, expansion of services such as police, welfare, medicaid, kindergartens, colleges and junior colleges; third, property tax relief and lastly, the general fact that previous state surpluses had been spent on recurring programs that moved state expenditures to a higher level. In many of these concerns, states could be said to be taking a total state-local view of government programs rather than restricting themselves solely to state needs.

Wage Increases and Inflation

Wage increases in the public sector are especially troublesome because increased wages do not mean a new or better program. Instead they generally provide for the maintenance of previous standards, that is, the maintenance of the same relative position to private employment which previously existed.[4]

The same relative position of public to private wages means that the same quality and quantity of personnel can be attracted and retained. Wage increases in public employment must equal the productivity gain in the private economy to remain competitive. If the need for additional public employees increases rapidly as has been true in the case of police a larger wage increase than that provided in private industry is required and the ratio of public to private wages increases. The ratio of public to private wages may not need to increase to attract persons with specialized skills in computer programming, data processing and the like. However, the employment of persons with these highly specialized skills in limited supply does increase the average salary per employee.

The tight labor market made the task of government recruitment and retention of personnel more difficult than previously. The increases in personnel became more costly and government needed to raise salary levels not only for new personnel but also for present employees.

Public elementary and secondary schools had gone through this phase of massive recruitment in the early 1950's.[5] By 1962, average salaries in schools equaled those in private employment generally. Despite large increases since 1962, school employees have barely kept pace with the gains in the private economy due to productivity increases.[6] New Federal programs and new emphasis on early elementary education have created shortages in special areas of teaching competence. Population trends create a growing demand for secondary school teachers. Average salary gains of at least 3 percent per year are needed to keep pace with gains in salary in the private economy due to increased productivity. Additional gains are needed to counteract the inroads of inflation in real wages.[7]

Inflation since 1965 has steadily become worse. The 4.2 percent increase in the Consumer Price Index for 1968 was the largest increase since 1951. Inflation affects both salary payments and cost of goods purchased by governments. Temporarily inflation may help state and local governments relying on sales tax revenue as the higher prices increase the revenue yield. Inasmuch as higher prices helped persons receive salary increases, the yield of the income tax may also increase faster than the price rise. However, the assistance to government is only temporary because the higher prices and wages create a need for higher government wage payments. And unfortunately for government, a larger share of its expenditure dollar than that of private industry is spent for wage payments. Thus, although the increase in revenue prior to the increase in expenditures (a result of the lag in the reaction of government to inflation) helped government, the ultimate reckoning hurts government more than private industry. Government is hurt more because the percentage increase in total revenue for the same price rise will be greater in government than in private industry and because a larger percentage of the government expenditure dollar is spent for salaries than the private dollar. The combination of price and productivity gains means salary increases of 8 to 10 percent in the present year. Unless inflation is controlled, salary increases of 10 percent may be required for some time to come.

Expansion of State and Local Government Services

The expansion of state and local government services in quality and quantity came in response to pressing problems, or resulted from the availability of funds to undertake new or expanded programs. Often the demand for the program was given impetus by a federal grant. The failure of the federal government to fully fund the program did not reduce the expectations of the citizens for the program but did reduce the ability of the states

and localities to pay for the expanded service.

The public elementary and secondary schools lately have only shared in a minor way in the expanded programs at state and local levels. The Elementary and Secondary Education Act of 1965 (ESEA) made an almost fivefold increase in Federal Funds for elementary and secondary schools. However, the funding of ESEA has not kept pace with the increased number of eligible pupils or the expanded cost of education. The major increases for education at state and local levels have been at the higher education level. Kindergartens and compensatory education programs are the major new areas for elementary and secondary schools. The largest increases in governmental services have been in police, health, and welfare with the medicaid program providing the largest increase in either health or welfare.

Property Tax Relief

In 1963, state tax revenue exceeded local tax revenue for the first time. States became increasingly interested in the problems of local government. In the 1965 legislative year, the questions of state-local finance shifted from the three-decade-old questions of:

(1) which broad-base tax the state should use: an income or sales tax?

(2) which broad-base tax the state should use and which should be left to localities.

The new question was how property, income and sales taxes should be combined into a state-local tax system with concern for the distribution of the tax burden by income groups, especially the regressive features of property and sales taxes. Property tax relief became important for persons of low income, for localities with high effective rates, and for businesses engaged in interstate commerce.

States have adopted (1) income tax credits (or a cash rebate if income tax liability is less than the credit) for persons whose property taxes exceed 3 percent of income, (2) special state levies whose revenue is distributed to counties in proportion to property tax revenue to reduce effective property tax rates, and (3) exemptions for business personal property. These and other provisions continue to spread to relieve the burden of property taxation.

Some states have increased state payments to schools in order to prevent further increases in the property tax. Some other states have enacted new broad-base state taxes to shift a substantial part of school support to that tax from the property tax. Property tax relief continues to have a high priority in many states. In other states, the property tax is being called upon to carry a larger share of local government support. These states, notably in the South, have relied mainly on state programs of support for schools and other local governments.

By mid-1969, 37 states had a personal income tax; 45 states a state general sales tax; and 32 states, both a personal income tax and a general sales tax.[9] Nonetheless, property tax revenue continues to provide over 40 percent of state-local tax revenue - - approximately the same percentage as in 1950. The same situation prevails for public elementary and secondary schools nationwide with local school districts and the local property tax providing over 50 percent of total revenue. Individual states have made dramatic changes in the percentage of total school revenue coming from

state sources. Nonetheless, the aggregate data for all the states show little change and new property tax revenue for schools each year exceeds new state revenue for schools. Consequently as states provide more funds for general local government and as states permit local governments to levy local nonproperty taxes, the property tax becomes more and more a school tax. Schools continue to depend on the property tax. Property tax relief measures must keep this relationship in mind.

Advocates of the property tax relief measures must also realize that the most important element of the property tax base is residences, the homes of the population. In a high-income suburb, property taxation is a surrogate for an income tax. In an industrial enclave, commercial and industry properties gather to avoid property taxes associated with services to people. Central cities lose commercial and industrial properties to suburbs as the population shifts from the central cities to suburbs.[10] The business and industry remaining in the central city as well as the central city housing (generally of lower value than that of the suburbs) must bear the burden for people-related services of central city.[11] These services are expensive because of the population composition.[12]

Property taxes at the same rate have a differential burden on various population groups and income class. Minority groups, who are discriminated against in housing, must pay a larger proportion of their income for the same value of housing. The proportion of income spent for housing decreases as income increases so that persons with larger incomes pay a smaller portion of income in property taxes.[13] Both of these factors - - the higher proportion of income paid by discriminated minority groups for housing and the smaller proportion of income paid by higher income groups - - contribute to a situation in which the same property tax rate in a central city as in a suburb places a greater burden on the residents of the central city. This result occurs because the city has a larger proportion of minority groups and persons with lower incomes.[14] Lower income and minority groups also require more people-related governmental services. In education, these groups may require larger per pupil expenditures than average groups to have the same opportunity. Thus, equal property tax rates between central cities and suburbs may mean greater burdens and less adequate services for the central city than its suburbs. Higher property tax rates for the central cities than those of the suburbs may mean a continued movement of population, business and industry to the suburbs from the central city.[15]

The central city-suburban property tax rate comparison becomes even more complex when one realizes that governmental services between a central city and its suburbs can vary widely. Central cities have rather large needs for police, fire, traffic control, highways, and welfare. Suburbs can forego many of these services and spend almost all available local

tax funds for education. On the other hand, the varied needs for governmental capital facilities such as water mains, sewers, police and fire stations and schools are much greater in new areas such as suburbs than in older areas such as central cities. The need to replace old capital facilities or to expand existing capital facilities for a changing population may be greater in the old central cities than in the new suburbs. Presently observed differences in the governmental services of central cities and of the suburbs may represent only a difference in the age of the localities.[16] As suburbs mature, they may require governmental services similar to those of central cities now. Differences in governmental services provided may decrease. However, the problems of different governmental service levels and differential local property tax rates call for state support now to relieve excessive property tax burdens and to assure adequate local governmental service levels. New state programs and additional state tax revenue are required to attempt to meet these problems.

Need for Annual Revenue Increases

In varying degrees, all of the three above problems of inflation and wage increases, expanded public services, and property tax relief, have plagued state and local governments for the past two decades. In some states, leeway in property tax rates have prevented a crisis. In some of the same states and in additional states, budget surpluses have postponed the crisis from one year to a later year. Economic growth has continued to increase tax yields so that a crisis did not arise each year or each biennium. Nevertheless, the continued expansion of services, the continued pace of inflation, the final depletion of old surpluses, and the growing concern of states for local government needs now means that tax increases are almost a yearly occurence. States now must realize that long-range planning for five to ten years in advance are necessary. A temporary revenue surplus

must not be used for recurring expenditures but should either be used for one-time expenditures or saved for future expenditure increases caused by the same factors which have increased revenue. Knowledge of the relationships of revenues and expenditures to facets of the economy and population become increasingly important.

The distribution of income, the growth in income, the distribution of spending between investment and consumption, the distribution of consumption between goods and services, the composition of the population by age and by employment, and the distribution of these variables by states and by local governmental areas within states affects both (a) the revenue available to localities and states and (b) the public expenditures of states and their localities.

Factors Affecting Property Tax Rate Disparities

Population Migration Trends

During the second World War and the period immediately afterwards, American agriculture became more mechanized and sought larger farm units with lower labor requirements than previously. An exodus of population began from the farms to small towns and larger cities. The population movement as yet is not completed. The larger farms with fewer people mean that fewer small towns are needed as trade centers. Trade centers in rural areas are still consolidating. Population continues to move to larger population centers. The people who moved a decade ago to the small towns are moving again to the larger cities. As a result of this migration, the places of out-migration have an aging population with a lower need for schools than previously but with a greater need for services for an aging population. The highly visible part of this migration from farm to town is the movement of Negroes to large metropolitan areas of the Northeast, Middle West, and West. Less visible is the later migration of Negroes from small

towns to cities of the South. Almost unnoticed is the similar migration of whites from rural areas of both the South and Middle West to large cities throughout the country. The migration of people to the West and Southwest has been noted as has the migration from the central city to the suburbs.[17]

The migration of population to the West and from the cities to the suburbs continues century-long trends. These migrations have slowed down in the 1960's as has the migration of Negroes from the South. The migration to the West, to the cities and elsewhere can be explained as people moving from places without employment opportunity to places with job openings. The population movement to the suburbs results mainly from the desire for new housing, or a higher quality of housing, coupled with ability to afford it. Such a movement away from the center of a metropolitan area occurred in the 1920's along means of mass transportation such as railroads and interurban bus lines. The movement of population from city outward in the late 1940's, the 1950's and 1960's was greater than previously because few houses were built during the decades of the 1930's and 1940's. Business and industry followed the population to the suburbs because they too desired new facilities and because shop owners were especially desirous of being near higher income groups.[18] None of these developments in population migration has been completed and none acted without interaction among themselves and with the other population changes.

Increasing Length of Schooling

Public school enrollment in 1930 and 1940 was approximately the same. Enrollments increased in the 1930's and 1940's only because more pupils completed high school. As a result of the now famous post-war baby boom increase, the 5-17 age population which represented one-fifth of the total population in 1950 (the approximate long-term ratio) represented one-fourth in 1960 and thereafter. By 1975, the ratio of 5-17 population to total population will decline below one-fourth. The number and percentage of the

aged has increased with a lengthened life expectancy. The ratio of dependent population (those under 18 years and over 65 years) to total population increased through the 1950's and 1960's to a low point in 1965. The ratio will now rise because the persons of the baby boom are entering the work force. As a result of these demographic trends, the growth in the labor force from 1950 onward was due to a large extent to the increased employment of women and teenagers. The population became more educated as the median years of schooling for the population 25 years of age and older increased from 8.6 years in 1940, to 9.3 years in 1950, and to 10.6 years in 1960. Today all but 13.6 percent of the persons who are between 14-24 years of age and who are not in school are high school graduates. Also, over 50 percent of the high school graduates are going to college. By 1970 the median years of schooling for the population 25 years and older may exceed 12.0 years.[19]

Thus, in the 30 years from 1940 to 1970 public elementary and secondary enrollments increased 50 percent and college enrollments doubled time and again. The nation moved from one in which the common education level was completion of an elementary education to one in which it was high school graduation. The increasing percentage of youth attending college means a more educated population in the future.

Changing Composition of the Work Force

There were increased numbers of women in the labor force and an increasing percentage of the female population in the labor force during the 1950's and 1960's.[20] This pattern is likely to continue. The working wife in some instances may be temporarily employed to meet extraordinary expenses like purchasing a home or sending a child to college. In other instances, the working wife may pursue an interrupted career: working before the children are born; then leaving the labor force with the arrival of the first child; and returning either when the

last child enters school or later when the child is old enough to care for oneself.[21] Suburban employment in business and industry was able to capture a large share of the increase in female employment because of location, and in some instances because the employers provided part-time employment for wives with family responsibilities.

The growing percentage of the female population employed increases the competition for personnel employed in fields like teaching and nursing which in earlier periods dominated the employment of women. A wider choice of employment opportunities exist for professional women. In the long run, these growing opportunities may decrease the entrants to teaching and nursing among women and provide varied alternatives to women re-entering the labor force.

The growth in the employment of women has the easily seen effects of increasing the demand for child-care centers and all-day activity for children. The growth in the employment of women also has the less easy to see effects of permitting a different standard of living in housing and so forth. Part of this different standard of living is the increased use of processed food with smaller preparation times. Another part of this different standard of living is housing changes over a lifetime within a metropolitan area.

Typical In-and-Out Migration Patterns

The young couple, when both are working, may live in an apartment close to employment. They may stay there after the first child is born. By the time the child is ready to attend school, the couple will look for a house in an area with good schools. When the last child enters college, the couple may return to a house or an apartment near employment again.[22] Thus, it happens that some residential suburbs near large central cities have a constant succession of children to educate. In times past, property tax payments on a residence over a lifetime could be matched with the expenditures

for educating the family's children for 12 years. In these instances of shifting of residences before, during, and after the schooling period of the child, the property tax payments of 12 years must match the school expenditures of the same period. Data for metropolitan areas show that these shifts exist. The reason most likely is not tax avoidance but the desire to lessen both time and cost of commuting. Friendships for a working couple are more likely to develop among their fellow workers than their neighbors. Moving from one neighborhood to another no longer has the psychological barrier of breaking friendships. The wife is not particularly attracted to the local neighborhood clubs but to her professional associations.

Often young working adults of suburban families with a desire to be free of parental bonds and also to lessen time and cost of commuting will move to the central city. Thereby, the possibility of increased numbers of persons moving over their life cycle between central city and suburb increases. Recent census data on age composition of central cities shows that for certain income groups the central city is the haven for young single adults and couples either nearing retirement or retired. Only lower income groups and minorities who have been discriminated against make the central city their home over their life span.[23] The changing age composition of cities and suburbs may be a temporary phenomenon brought about by the rapid rise of suburban housing in the post-World War II period and by the migration patterns outlined above. Or the changing age pattern could become a permanent phenomenon with varied effects on local taxing as the housing stock is used closer to its capacity at all times. The previously observed relationship of a family buying a house suited to its size but with the house continuing to be occupied by the couple after the children leave and then by the surviving spouse until death may no longer prevail.

Other factors within the central city and suburbs are also destroying the concept of a family residence from family formation to death of the last surviving spouse and its accompanying characteristic of a local community with an age composition a virtual microcosm of the Nation. The fact of young adults leaving home and setting up their own dwelling unit upon entering college or work has been mentioned. The shift of places of employment within metropolitan areas also has been treated. Changing employers, and the transferring of employees from one city to another have not. These factors are important but need no development. Two other important factors need to be spelled out. They are (1) the construction of a large subdivision such as Levittown, New York or Pennsylvania all at once and (2) the differentiation by price among subdivisions created by zoning.

Differences Between Suburban Communities

A large new subdivision with a limited price range unless it has marked advantages in location for a residence near one or more existing employers will tend to attract persons of the same age and income.[24] Assume that the subdivision is priced to attract couples with young children and an average income. If the subdivision is a large part of a local school district, the new residents will set the standards of schooling and the tax rate. If the subdivision is of substantial but not great importance in a local school district, the educational standards and tax rate prevailing before the existence of the subdivision will determine its attractiveness to prospective buyers. In the latter case, when the balance between educational standards and tax rates is favorable, families with children of school age will buy and move in; otherwise few families with children of school age will purchase houses. Older families may only look at the tax rate and purchase a house if the tax rate is favorable. In the former case, the results will tend to be the same as in the latter case tempered by the first purchasers. Persons

anxious to set educational standards will seek others of like mind to settle there. Persons concerned with the tax rate will also seek others of like mind to purchase houses there. After a fraction of the houses are purchased, later prospective buyers can easily see whether it is a subdivision devoted to children or not. In all of the above cases, the families occupying the subdivision will tend to be about the same age. There will be variations because of two wage earners in some families, past savings on the part of some families, difference at age of marriage, difference in time in the area and so forth. Nonetheless, the variation from a single age will be small because the size, type, and price of house varies but slightly and because income is a function of age, education and occupation. The price through income brings together persons of about the same age. The variation in age that occurs comes from differences in education and occupation. These differences are not likely to be great as the new subdivision serves a limited number of places of employment unless the trade-off between commuting time and cost and type of house varies widely among occupations.

Since the subdivision has a predominate age at its start, the subdivision residents will tend to get older as the years pass. Judgements about the desirableness of the subdivision will change through time. Assuming that education was valued initially, normal change will bring additional persons favorable to schools. As the population ages and their children leave school, the decline in the tax rate will attract persons interested in low taxes as well as persons interested in schools. If the demand is great from persons interested in schools, many residents with no children may sell, move away, and follow the pattern described above. If the demand from persons interested in the declining tax rate is great, the community may switch from one interested in schools to one of great concern with a low tax rate. In the latter case, the community will then tend to become older. Few residents will leave until a sizeable proportion becomes old and new groups seek the

old homes in the neighborhood. Only at this point may the age composition of the community begin to vary.

Partially the aging of the community results from the fact that children do not purchase homes in their parents' neighborhood. Young couples prefer if they can to begin in a new house. One reason the new housing demand is strong is because older houses have fewer of the modern conveniences and the old housing market almost ceased to exist for a long time in the 1940's and 1950's. Apartment living in the central city gives young couples a chance to wait for the right house at the right price.

Changes in housing values during most of the past 20 years did permit sale of an old house to move into a better priced house. Most of these moves were made, however, to provide more living space for a larger family, a better location to a changed job, and similar reasons. Some changes of residences were for speculation on rising housing values.

The growth of new companies with many employees of nearly the same age near a subdivision tend to intensify the above problem of a community with little variation in age. New plants of established firms near a subdivision tends to give the community a better age composition. However, the practice 25 of zoning by housing value tends to create the single age community. New housing will vary in price from community to community. The housing prices will limit purchase to persons earning a given income. As indicated above, income is a good surrogate for age. Mortgages on houses are difficult to obtain when one is beyond a given age. Again the community is restricted to a narrow age band.

The fragmentation of natural economic areas into many local governments, especially school districts, makes the gathering together by similar age groups desirable if one wishes either a high standard of education, a relatively low tax rate, or a certain balance between educational standards and tax rate. The growth of new housing provides the opportunity. Until recently, the ease of mortgage credit and rising housing values permitted persons making changes in housing to take advantage of these opportunities. The demand for housing in quality school areas meant turnover of housing and a continuing school-age population. The demand for housing with relatively low property taxes meant an aging of population in those areas and fewer children to educate. In combination, these competing demands created vast disparities in resources per child, tax rates, and education provided. In turn, housing in high property tax areas was probably forced to maximum utilization of space - - the largest family size compatible with the house - - rather than use of the house over the life span of one individual couple. Life span use probably continued in low tax areas. The result of these varied usages, however, is extremely high property taxes on some persons and their property while other persons and property have extremely low property taxes. These disparities exist among suburbs of the same cities as well as between suburbs and central cities.

Overall Observations on Tax Rate Disparities

Varied social, economic and political forces affecting disparities in property tax rates on houses have been traced. Not all factors leading to these results have been mentioned. The uneven growth of a metropolitan area's economy, over a long period of time, the changed composition of the work force by sex and by occupation, the age composition of in-and out-migrants, the changing commuter networks and mode of commuter travel, the changed location of employment, also contributed to varied age compositions among central cities and between central cities and suburbs. Concern for

high property taxes often result from a comparison to a lower property tax of either a vastly different suburb or an industrial enclave. Public service needs are not the same among these communities. Valuation per capita or per child could be the same in all three communities yet hide much of the real differences among the communities. Property tax relief on the basis of income tax credits (or cash rebates where the credit exceeds income tax liability) when property taxes exceed a certain percentage of income and property tax relief through state payment of a larger share of school costs are attacks on this problem.[26] Careful deliniation of local government differences and remedial action on many fronts are necessary to move further to a solution.

Discussion of Taxation Alternatives

The long digression on social, economic, and political factors affecting property tax rates may enhance the shorter discussion which follows on the economy, particularly the growth rate.

Growth in Property Tax Base

Dennison has shown that 38 percent of the total growth in National Income of the United States from 1950 to 1962 car be attributed to education.[27] Almost 55 percent of the increase in output per unit of input can be attributed to education and 40 percent of the improvement in factor inputs belongs to the schools. In other words, education is an investment in people - - human capital - - and in knowledge which has paid handsome dividends. All citizens should be willing to invest even more heavily in schools. Nonetheless, the improvement in national income due to education is a mixed blessing because schools obtain most of their funds from the property tax, a tax levied on physical capital. The input of physical capital contributed less to the growth rate than the input of labor. Only a fourth of the growth rate in national income is due to physical capital. Furthermore, dwellings, or houses,

contributed more than a fourth of physical capital's contribution. Thus, property becomes less and less important in the economy and increases slower than national income. At the same time, housing becomes a larger and larger part of property. More education is good but education is financed by taxes on property. Therefore, while the same education would mean higher property taxes with an increasing share from housing, more education financed in the same way can only mean even faster increasing property taxes with an even higher burden on housing.

The labor input increased because more people were employed in 1962 than 1950. The quality of the labor input increased because the labor force was better educated. A decrease in the hours of work and a change in age - sex composition of the labor force reduced the labor input. The change in the age - sex composition of the labor force was referred to previously: more teenagers and more women. The increased participation of women in the labor force also adversely affects schools by increasing the competition for personnel and by possibly demanding more services from the schools. Thus, schools are faced with rising costs and increased demands for services combined with a declining tax base which has been its principal means of support. The major alternative methods of taxation are income and sales taxes.

Growth in Income and Sales Tax Bases

An income tax taps the potential a person realizes on his educational investment. A sales tax increases the price one pays when he buys taxed goods. If the individual invests his money rather than spending it for consumption, he avoids the sales tax. An individual can also avoid the sales tax by purchasing non-taxed items instead of taxed items if the sales tax is not general and universal in coverage. Most state sales taxes are not levied on all the things on which people spend money. Most state sales taxes

are limited to goods purchased and do not extend to services purchased. Since services such as dry cleaning, barbering, and so forth are becoming an increasing fraction of national income, sales taxes levied on goods alone have a tax base that is becoming a smaller and smaller fraction of personal consumption expenditures. Also as income increases, persons tend to spend a smaller fraction of their income and save a larger fraction. Thus as income increases, the increase in the sales tax yield, even if the sales tax covered all goods and services, would not match the increase in income.

Any long-range solution to state-local revenue needs to rely on increased use of the income tax as the major broad-base tax, and it alone, has a yield when the rate structure is graduated that increases faster than income.

Integrated Income-Property-Sales Tax Proposal

An integrated income-property-sales tax for state-local governments with state administration and local authority for supplemental tax rates on both income and sales would permit more flexibility in taxation, ease state tax administration, and reduce cost of compliance. Circuit-breaker income tax credits (or cash rebates if the credits exceeded income tax liability) could eliminate the regressiveness of property and sales taxes. The sales tax could be truly general without any exemption, even those exemptions normally allowed for food and medicine. Property taxes other than on residential property, including rental property, could be removed from local tax rolls. A statewide property tax could be levied at the average rate for the state with a special forgiveness feature if property taxes exceeded a set percentage of income.

State economic development would be enhanced as there would be no property tax advantage or disadvantage to location in any section of the state. The state would determine the extent to which it wished to use the sales tax and the extent to which it wished to use the tax on personal and corporate income to carry the state's share of the state-local tax load. This decision would need periodic examination as the income tax would normally increase faster than the sales tax in periods of economic growth. Localities would be free to use either the sales tax or the personal income tax instead of property taxes on residences. High property taxes would be relieved by state income credits (or cash rebates).

Each locality would be free to pursue the program it desired if the state equalized fiscal potential so that for a given local effort every locality had the same expenditure, that is equal expenditure for equal effort but a range of expenditures corresponding to the range of effort so that expenditures would vary among localities as effort varied. Fiscal potential could be any combination of the income, property and sales tax bases that the state sought to encourage.

The above proposals are not a plan for immediate action. Rather the proposals set forth long-range goals in the general context towards which states must move if public service levels are to meet expectations without undue tax burdens on any one group of citizens, group of taxpayers or income group and if public service benefits by income group are to correspond to tax burdens by income group. Some income transfers are necessary in public expenditure programs. However, such income transfers should be the result of deliberate policy and not chance.

If income transfers are left to chance, the dissatisfaction among taxpayers will grow when taxes increase and there is no visable change in services. The funds may be for a salary increase to public employment to maintain some relative level of public to private salaries. The funds may be for more services to income groups below the taxpayer's income, or a more equitable distribution of services.

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